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RHEBAAA/DEPT OF ENERGY WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RHMFIUU/FAA NATIONAL HQ WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

UNCLAS SECTION 01 OF 03 NEW DELHI 005230

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USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
STATE FOR SCA/INS AND EB/TRA JEFFREY HORWITZ AND TOM ENGLE

E.O. 12958: N/A

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SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
DECEMBER 3-7, 2007

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¶1. (U) Below is a compilation of Economic highlights from Embassy
New Delhi for the week of December 3-7, 2007.

INVESTMENTS KEEP ROLLING
INTO SOUTH INDIA

¶2. (U) Seeking to take advantage of Tamil Nadu's revised industrial
policy, both Dell and Nokia announced expansion plans in the state
this week. A senior Dell official announced on December 4 that the
company will invest USD 30 million in its existing facility in
Chennai, which will allow it to produce an additional 500,000
desktop computers per year. Not to be outdone, Nokia announced on
December 6 an additional investment in its Chennai manufacturing
facility of USD 75 million, along with a planned increase of its
employees, who will total 30,000.

¶3. (U) New investors also are arriving in South India, with European
companies Asea Brown Boveri (ABB) and Skoda announcing plans to
establish equipment manufacturing facilities. ABB plans to invest
USD 100 million to establish a facility at Bangalore to manufacture
low-voltage and power electronics. Skoda plans to establish a steam
turbine manufacturing facility in Hyderabad with an investment of
EUR 50 million euros (USD 73.5 million).

COMMUNICATION PROBLEMS STALL
SURVEILLANCE SATELLITE LAUNCH

¶4. (SBU) The launch of an Israeli surveillance satellite on board an
Indian Space Research Organization (ISRO) launch vehicle is facing
continuing delays, according to press reports. An ISRO official
told Consulate Chennai that engineers had not yet resolved
communications problems between the satellite and Indian receivers,
adding that discussions to resolve the issue were ongoing. He said
that the satellite was already mounted on the launch vehicle, which

was ready for fueling. He speculated that the delay in the launch of the Israeli satellite may make it difficult for ISRO to launch its Chandrayaan-1 lunar explorer on schedule in April 2008.

RELIANCE PULLING BACK
ON FRESH PRODUCE

15. (U) The Economic Times reported Sunday that Reliance Retail is planning to reduce the space it dedicates to fruits and vegetables in its Reliance Fresh outlets. In some states, including Orissa, Reliance Fresh will not sell fruits and vegetables at all. The move is partly in response to the many protests by small retailers and middlemen against Reliance in the past several months and partly due to Reliance's inability to establish an effective supply chain.

GOI LIKELY TO REDUCE
PEAK TARIFFS AGAIN

16. (U) Media reports cite senior government officials as indicating that for the fourth consecutive year peak tariffs on a wide range of industrial goods will be reduced, bringing the expected peak rate down in FY2008 from 10 percent to 7.5 percent. The FY2008 budget will be announced on February 28, 2008. For the last fiscal year (FY2007), the headline non-agricultural goods tariffs were reduced from 12.5% to 10% (this 'peak' rate essentially is the applied rate on approximately 90% of Indian non-agricultural market access or NAMA tariff lines that are not sensitive and hence has a different meaning than tariff 'peak' terminology used in the WTO). The proposed move, if implemented, would be in keeping with the GOI's stated desire to approach ASEAN tariff levels of 4.5-5.5 percent in 2010.

17. (U) Industry is already arguing against further reductions, citing the rising rupee as an already formidable headwind to

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domestic manufacturers, which some argue would be exacerbated by additional tariff reductions. FICCI, in particular, has already come out publicly against such moves. We assess however that the GOI is likely to follow through with a peak tariff reduction in February 2008, while continuing to keep key sensitive industries protected by prohibitive tariff peaks.

INDUSTRY PROTESTS AGAINST
NEW M&A PROVISIONS OF
COMPETITION ACT

18. (U) Indian industry officials have raised concerns with the GOI that the new Competition Act could impact local and cross-border mergers and acquisitions (M&As) decisions by the business community. Certain provisions of the Competition Act, per the PHDCCI (a regional industry group representing north Indian states), imply discretionary powers to the Competition Commission of India (CCI). Industry's principle concern is the threshold on assets and turnover which requires CCI approval on M&As within 30 days of signing the deal. Industry officials point out that most of the well-known companies and innumerable group companies are feared to come under the CCI scrutiny as a result of these stipulations. Another contention is that the GOI has adopted a mandatory approval regime without first putting a voluntary regime to test.

19. (U) Moreover, businesses are concerned about the 210 to 270 day wait period for M&A clearances which will considerably slow down financial activity since a seller will not wait that long for approval and may opt to rescind the offer. Acting Chairman of CCI, Vinod Dhall, however, has reportedly said the CCI was planning a three-stage framework so that most of the cases (around 85 percent) will be cleared within 30 to 60 days and only complicated cases will go to the next stage. Another provision industry is finding hard to digest concerns cross-border M&As, which fall under the purview of the new provisions, even if there is no presence in India. The Competition Act defines acquisitions very broadly without thresholds, leaving all acquisitions open for CCI scrutiny, thus

leaving it to the discretion of the CCI, claim industry analysts.

¶10. (SBU) American Bar Association's (ABA) Sections of Antitrust Law, Business Law, and International Law, in their submission to the GOI have cautioned that the new Act in its current form is likely to discourage competitive conduct and investment in India. Sharing their concerns with the local industry, the ABA recommended that India consider appropriate further amendments which address legitimate concerns by industry and foreign governments, including the seven-month long waiting period for approval of M&As, the burden of notification for non-problematic transactions, and the ambiguous and restrictive provisions on notification procedures.

US FIRMS JOIN HANDS
WITH INDIA'S AIRWORKS

¶11. (U) New York-based private investment firm Global Technology Investment and construction firm Punj Lloyd Limited have purchased a 33 percent stake each in Airworks India. Airworks is one of the oldest family-owned aircraft maintenance firms in India. The Menon family, which owns Airworks, will retain the balance 33 percent stake. The two investors are putting in close to USD 25.5 million to revive the Mumbai-based company that now plans to expand its operations into other areas of aviation infrastructure and services. Airworks is also planning to provide maintenance repair and overhaul (MRO) services for the airlines, for which there is great demand in India but only a few providers.

HOUSTON AIRPORT EYES
NOIDA AIRPORT PROJECT

¶12. (U) Jaypee Group may partner with US based Houston Airport

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System (HAS) in its bid to build the proposed airport at Zevar in Greater Noida in Uttar Pradesh (UP). Jaypee Associates is eager to enter airport construction, and the Jaypee Group is planning to bid for airports in other metro and smaller cities as well. Houston Airport System, the fourth-largest airport system in the United States and the sixth-largest in the world, operates three facilities in Houston - George Bush Intercontinental Airport, William P. Hobby Airport, and Ellington Field.

¶13. (U) Plans for the Greater Noida Airport are still uncertain and the proposal is with the Union Cabinet pending a decision. GMR, the group developing Delhi's Indira Gandhi International Airport (IGIA), has opposed setting up a new airport in Greater Noida. GMR fears the new Noida airport, located less than 72 km from Delhi's airport, will divert traffic from IGIA, rendering the latter economically unviable.

¶14. (U) New Delhi based Parsvnath Developers is also planning to form a consortium with a Turkish airport operator TAV Airports Holding and IL&FS Transport Network Limited (ITNL) to bid for the Greater Noida airport project.

THE PERENNIAL PROBLEM
OF FOG IN DELHI

¶15. (U) With the onset of winter, Delhi airport authorities are gearing up to avoid disruption of air traffic due to foggy conditions. According to Airport Director R K Jenamani, about 150 hours of disruption of services is expected from December to February 2008 with runway visibility falling to less than 50 meters. Last winter, flight operations were disrupted seven times when the Runway Visibility Range (RVR) went below 50 meters while Low Visibility Procedure (LVP) was initiated 30 times when the RVR went below 800 meters.

¶16. (U) Directorate General of Civil Aviation (DGCA) has issued guidelines to airlines, airport authorities, and the meteorological department to gear up for the winter fog. According to press reports, the LVP prepared for the aircraft operations up to CAT IIIB

visibility conditions at Delhi's Indira Gandhi International (IGI) Airport will be strictly followed by all the agencies at the airport.

¶17. (U) The meteorological department will provide the airport with weather updates every six hours while the air traffic controller (ATC) will provide the aircraft with an estimated time of arrival instead of just a number in the queue. There will also be more coordination between the apron control and the ATC to avoid extended flight delays. Andrew Harrison, chief operating officer for Delhi International Airport (DIAL), stated, "We have asked airlines to keep the airport informed of the delays in flights apart from rostering Cat III b compliant pilots for the Delhi routes in order to avert any delays and disruptions during fog operations."

¶18. (U) Mindful of last year's mismanagement of flight delays at the airport during the winter months, the DGCA and airport authorities claim things will be better this year.

¶19. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

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